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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: July 17-22, 1968

SUBJECT: US-Italian Civil Aviation Talks

DEPARTMENT OF STATE A/CDC/MR
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I. Technical Talks

As strongly requested by Italy, technical talks were held in Rome preceding the principal substantive discussions scheduled for July 19 and 20. The technical talks were for the purpose of seeing if the differences between the US and Italian estimates of route values could somehow be narrowed. These technical talks were held in three sessions on July 17 (5 to 9 p.m.), and July 18 (10:30 a.m. to 1:00 and 3:30 to 6:00 p.m.). They were attended on the US side by Rodriguez (State), Scibilia and Burch (CAB) and Landry (ATA); on the Italian side by Constestabile and Pillati (Civilavia) and by Bruni and Savi (Alitalia).

At the July 17 session, after opening remarks, the two sides agreed that the technical discussions would be based on the Joint US-Italian Document of July 3, 1968 (Attachment 1) and would cover the following parts of that document:

1. Footnotes 11 and 12

These deal with how the US and Italy estimate the RTW route beyond Rome to Tokyo for US carriers. At the Washington technical talks (June 24 to July 3) the Italians had given the US some market data on which they based their estimates and the US had agreed to check this data out with US carriers.

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2. Footnotes 3 and 5

These deal with US carrier presently-operated intermediate and beyond Italy points. Because of divergences on passenger data on these sectors, both sides had agreed to recheck their figures.

3. Footnotes 14 and 15

These deal with CHI/ORIENT and LAX/ORIENT routes, where Italians felt it necessary to limit value to what could be made on 3 weekly transpacific frequencies and US insisted that to adequately reflect value of LAX/ORIENT and CHI/ORIENT it was necessary either to figure 4 frequencies at 55 percent load factor or 3 frequencies at an unrealistically high load factor.

4. Footnote 4

This is the LIS/NYC problem, where the US had estimated the value of all passengers on board Alitalia flights on that sector and Italy wanted to exclude totally the TAP passengers.

(In addition, Italy proposed an agenda item to consider diversion from Alitalia on routes east of Rome caused by US carrier services there. Italians said this reasonable since US was subtracting diversion loss from US carriers as result of estimating Alitalia services to ATL/DAL. US participants pointed out two types diversion not comparable and that Alitalia diversion loss on sixth freedom routes was irrelevant to estimates being proposed. After argument on this point, Italians did not raise it again.)

The details of the discussions on the above four points of the agenda are contained in separate minutes prepared by Mr. Landry (ATA). The highlights of these discussions are the following:

a. On the US RTW beyond Rome (points not currently operated) the US side maintained that the Italian estimates of frequencies and passengers were completely unreasonable in light of the size of the market.

b. On US carrier intermediate and beyond Italy services (points currently operated) it was clear that large part of difference in estimates was that Italy was using airport data gotten

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from airline station managers and the US was using actual carrier count of coupon data as submitted to CAB. US argued that coupon count more accurate but Italians argued that airport records were official data and they could not deviate from them. Was also clear that Italian percentage allowance for non-revenue traffic did not correspond to actual experience of US carriers.

c. Differences in the average fares used on certain sectors (e.g. Rome-Athens) for US carriers was agreed to be due to fact that US estimates allowed for different local passenger fares for stopover passengers. Italians said they could not make this allowance because they had no data on US carrier stopover passengers.

d. No real progress was made on reducing differences in the estimates. However, it was agreed to prepare some new footnotes to bring the Joint Document footnotes up to date. One such footnote would deal with the possible use of a penetration basis on the Alitalia currently-operated LIS/NYC route. Also the US group asked the Italians for a footnote explaining why Italy was presenting no estimates for the US carrier routes beyond Italy to Africa and Australia. The Italians agreed to draft such a footnote.

II. Preliminary Talk between Assistant Secretary Solomon and Ambassador Ortona

On July 19 at 1:00 p.m. (after Mr. Solomon had visited briefly with Mr. Soro, Director General of Economic Affairs at the Foreign Ministry) Mr. Solomon and Mr. Ortona, accompanied by Rodriguez and Serafini, met to discuss how the substantive meetings should proceed. Mr. Solomon pointed out that the technical estimates were very far apart, bringing out that the US could not see how we could reach agreement on a route package that would include all of Italy's route desires on the basis of those estimates. Ortona stated that Italy was also very disappointed that the statisticians could not agree on the estimates, and said that the US technicians had just refused to accept any Italian estimates or to agree to compromises. Rodriguez described the various reasons for the differences and explained that both sides had insisted on their respective estimates because each side considered its own estimates valid and reasonable. Ortona then proposed that the technicians be invited to the larger meeting, scheduled for 4 p.m. on July 19, so that the principals could hear both sides. Solomon agreed. (It later appeared that the Italians had held a meeting at the Foreign Ministry the night of the 18th and had decided to turn the substantive sessions into a full discussion of statistics. At 12:30 on the 19th Constestabile had

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called the Embassy to say that he would be at the 4 p.m. meeting and expected to meet the US technicians there.)

Solomon emphasized US concern that Italian technicians had been instructed not to present estimates for US routes beyond Italy to Africa and Australia. He stressed that presenting estimates was not supposed to imply that routes evaluated would necessarily be granted. Ortona replied that he had taken this up with Santini but had been unable to prevail on Santini to permit estimates on those routes. Santini was adamant that those routes could not be considered at all and that it was therefore useless to estimate their values. Solomon explained the importance to the US of having those routes and told Ortona that Italy would have to pay an important price in the routes it would get if it refused to grant the US routes to Africa and Australia.

In further discussion Solomon asked whether Italy had given further consideration to Venturini's suggestion that Italy withdraw its request for a LAX/Orient route in order to get a route to ATL/DAL into the package. Ortona replied that Venturini had just raised this to find out if ATL and DAL were in any case precluded, and that Italy did not want to give up its request for a RTW route.

Solomon explained the great domestic problem that the US would have if it gave Italy all it had before in terms of routes, plus an RTW route and a route to ATL/DAL, and for itself accepted a greatly reduced route structure and the exclusion of Africa and Australia routes. This was politically unacceptable. An ATL/DAL route for Alitalia would be giving the first foreign carrier such a route which no US carrier enjoys; this is in itself a difficult policy problem.

Ortona said he recognized this, and suggested that it was necessary to review the statistical estimates in a larger meeting and then to see what conclusions could be reached.

III. Plenary Session on July 19 from 4 to 9 p.m.

The first plenary session on July 19 beginning at 4 p.m. was attended on the US side by Solomon, Minetti, Rodriguez, Landry, Scibilia and Burch and on the Italian side by Ortona, Santini, Venturini, Serafini, Contestabile, Bruni, Basso and Lecchese. (Thus there were 4 Alitalia officials in the plenary talks.) In addition, the new Italian Commercial Attache to Washington and

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the Foreign Ministry North American desk officer were present for a part of the session.

After opening remarks by Ortona and Solomon, the participants in the technical talks were asked to report on the results of their meetings and to explain why they had not been able to agree on the estimates. The Joint US-Italian Document of July 3, 1968 (Attachment 1) was then considered item by item. Rodriguez first reported on each item how the estimates were arrived at and the significance of the differences, and then Burch and Bruni argued their respective positions. The other US and Italian officials present also participated at various times in these discussions. The details of this discussion are contained in Mr. Landry's minutes. The meeting was ended at 9:00 p.m. to proceed to a dinner for all the participants hosted by the Italian Foreign Ministry.

IV. Plenary Session on July 20 from 9:15 a.m. to 12:30 p.m.

At the plenary session the morning of the 20th, attended by the same officials that participated in the first plenary session, Amb Ortona stated that the preceding discussion had shown divergence in the estimates that made it impossible to discuss adequately a route exchange. He therefore thought it was necessary for the technicians to meet again, as soon as possible to try to reconcile their differences. Mr. Solomon expressed the view that if the technicians went back to work without additional instructions they would again be unable to resolve their differences. Mr. Rodriguez suggested that there were certain guidelines that could be agreed upon for further meetings that would enable the experts to narrow their differences. Ortona invited him to propose those guidelines.

Mr. Rodriguez first proposed that the basic data to be used for routes currently operated should be the actual ticket count data derived from carriers rather than airport data. He noted that this should apply to Alitalia data as well as for PAA and TWA. Use of such data would enable both sides to base their estimates for currently operated routes on the same data and should almost completely eliminate any differences on the first page of the Joint Document.

Ortona took up this suggestion with Gen. Santini and it became evident from their conversation that Santini did not agree. Ortona explained that the airport data were official Italian data and in any case were required to be accurate. The US side pointed

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out that the carrier airport managers who submit those reports to the Italian airport authorities do not have the tickets with which to establish definitively where a passenger originated his flight. The total number on board can be reported accurately but the information as to the number of passengers from each intermediate or from each beyond point is subject to human error. Bruni pointed out that reports on passengers departing from Italian airports should be exact because they must be related to the embarkation tax data (also on departure the carrier airport officials have access to the tickets.) Mr. Rodriguez said that departure data was probably accurate and could be used but that data on incoming passengers should be taken from actual carrier records. Mr. Solomon pointed out that the use of the data was purely for the purpose of estimating route values for these bilateral discussions, and therefore Italy should not be reluctant to set aside its official data for this limited purpose.

Ortona stated that he had to leave the meeting for awhile to meet with Ambassador George Ball, and suggested that the US propose its other guidelines and they could then all be discussed. Mr. Rodriguez then made the following other suggestions:

(1) That the actual carrier experience on percentages of non-revenue passengers to total passengers be used by both sides. (In point of fact, the actual carrier data taken from the ticket count - for Alitalia as well as the US carriers - easily excludes exactly the non-revenue passengers, but the Italian experts had been using Alitalia experience on non-revenue percentages to estimates for US carriers. So agreement on this point would help in arriving at similar revenue passenger totals.)

(2) The same average fares should be used. (Italy was using a fare that did not take into account local fares because the Italian technicians did not have stopover passenger data. The US indicated it had this data and was willing to give this data to the Italians.)

(3) The same ratio of primary to secondary traffic should be used on all intermediate points for Alitalia. (Alitalia's actual experience on the London intermediate is a 50/50 ratio. On the Paris intermediate Italy used a 35/65 ratio to arrive at the estimated value of Paris.) As a minimum the traditional CAB ratio of 40/60 should be used on the Paris intermediate.

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(4) All routes on the joint document should be evaluated by both sides, or else points evaluated by only one side should be taken out of the joint document.

In the discussion that ensued Mr. Solomon pressed strongly for acceptance of the proposed guidelines. General Santini finally accepted use of actual carrier data instead of airport data. (However there was some confusion on this because Santini asked Contestabile how long it would take him to get the data and Contestabile said two months. Bruni later told the US technicians that he had all the Alitalia data and it would take him only a few hours to extract the data.) Bruni also agreed to use US stopover data to arrive at the same average fares for fifth freedom traffic for US carriers.

On Lisbon/New York it was agreed after a long discussion to use a penetration method in order to avoid the problem of how to deal with the TAP traffic. Mr. Burch pointed out that the technicians had discussed a penetration approach, but that the US had wanted to use a basis of a daily flight at 50 percent load factor with a 40/60 ratio of secondary to primary traffic. As a concession to Italy the US had agreed to reduce the basis to 5 weekly frequencies but using a ratio of 50/50 secondary to primary. Bruni insisted the traditional CAB ratio of 40/60 should be used in such a case. Solomon told Bruni that he had to be consistent; if Bruni wanted to use 40/60 on LIS/NYC he should accept using it also on PAR/ATL/DAL.

With respect to new US intermediate markets (UK/Italy, Ireland/Italy, Germany/Italy) the US side explained that the US had not evaluated them because those intermediate were desired only for cargo, which was outside the scope of the Joint Document. Mr. Solomon proposed that those intermediate points be eliminated from the document, but made clear that that would not preclude their being reinstated at a later point in the negotiations.

With respect to the Paris intermediate, Bruni suggested it would be good to have a CAB Survey on the France-US market such as the CAB had prepared on the US/Italy market. It was pointed out that this was a costly survey (the US/Italy survey had reportedly cost $14,000), but Mr. Minetti agreed to authorize a similar survey for US/France. Mr. Solomon told Mr. Bruni that he should be prepared to use the CAB surveys fully and not merely use them when it was to his advantage. (Bruni had used the US/Italy survey to lower the value of the LAX route, but did not apply it fully on the ATL/DAL values.)

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With respect to new points on an RTW route be[illegible]d Italy, Mr. Solomon suggested that the minor points (i.e., Abadan to Osaka as listed in the joint document) should be taken out of the document. He pointed out that some of these had a very marginal value for the US and we certainly would not want to include them at the value put on them by Italy.

Mr. Solomon again pressed the Italians to estimate values for the Africa and Australia routes. General Santini said he would reconsider that matter and would let the US know his decision through the Embassy.

With respect to the estimates for the CHI/Orient and LAX/Orient routes for Italy, Mr. Solomon proposed that two evaluations be used: one including Chicago and one without Chicago. In this way perhaps the argument over the 3 versus 4 frequencies could be avoided. The Italians agreed.

Mr. Burch asked whether Italy had a restriction from the Canadians on the use of Montreal as intermediate point on routes to the US. He explained that this would be useful information in order to decide whether the BOS/CHI coterminal value needed to be included. Gen. Santini and Ing. Venturini said that they didn't remember exactly what the situation was with Canada.

With these guidelines generally agreed to, Amb. Ortona proposed that the session be concluded. He also proposed a smaller meeting to follow immediately including only Ortona, Santini, Venturini and Serafini for Italy and Solomon, Minetti, Landry and Rodriguez for the United States. Mr. Solomon agreed to this.

V. Smaller Substantive Session on July 20 from 12:30 to 1:30 p.m.

Ambassador Ortona opened this discussion stating that as they had said earlier, Italy is intensely interested in a route to Tokyo and in new traffic rights to Atlanta and Dallas. Also, Italy did not want to discuss Africa and Australia, which were out of the question for Italy. That was essentially Italy's position.

Mr. Solomon replied that it seemed to him that Italy was basically interested in the commercial values of routes and wanted to obtain maximum commercial values. However, at the same time, Italy appeared to be assigning a non-quantitative value both to new access points and to the RTW route. This is why Italy insists

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on the two things, and this makes the problem much more difficult to handle.

Ortona explained that Italy's interest in these routes was a combination perhaps of the commercial and non-quantitative elements. He recognized that priorities were involved and said that sometimes priorities are defined by eliminating other priorities. He noted as an example that Italy had eliminated its request for a route to Mexico. Solomon pointed out that this could not be weighed in as a significant element because Italy had just made a long list of requests and was eliminating some of them. The point was that Italy was asking too much. And it had to decide what was of greatest interest to it.

General Santini said that he didn't understand this approach. He saw the bilateral agreement as a commercial agreement, and therefore the question was not one of priorities but of balance. However, the problem is that we are very far apart on the statistics and estimates. If a statistical balance could be reached, then the two countries should have no problem arriving at an agreement. If we are far apart on statistics, it is almost entirely for technical reasons, and the principal area of divergences is as regards new routes. Santini noted that Venturini had doubted Tokyo could be served before 1973. (Venturini interjected it might be 1974 and that the reason was lack of equipment.) Santini continued that perhaps next year Alitalia could serve Los Angeles. He was not sure when Alitalia could serve Atlanta and Dallas. (Venturini said that he doubted that they could do that before 1970.)

General Santini recalled that the old agreement had been in force for some 20 years, and it was to be hoped that the new agreement that would be negotiated would last another 20 years. Therefore, it is important that the long-range future plans for Alitalia be provided for in the new agreement.

General Santini recognized that the United States wanted very much to have routes to Africa and Australia and wanted them evaluated. He stated, however, that, if Italy gives the United States some estimates on Africa and Australia, those estimates would indicate to some extent the value of those routes, but they would not show the disruption that US carrier services on those routes would mean for Alitalia. Alitalia is restricted in East Africa--Nairobi and Dar es Salaam--and for that reason is not in a position to compete with US flag carriers that might not be restricted on

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such routes. Similarly, Italy is restricted on the route to Australia. The damage on Alitalia by US carrier services on the same route would be incalculable.

Mr. Minetti pointed out to General Santini that when the United States deals with countries in Africa and Australia, it also has to face the same problem of restrictions and theis is why it is important to try to have agreements based on liberal principles.

General Santini recognized this and said that he believes that there is a very definite trend towards bilateral agreements limited to third and fourth freedom rights. This is certainly something that is being considered in Europe, and countries in Africa and Australia also want to restrict fifth freedom rights. Australia is willing to give Italy only three weekly frequencies and it gets four frequencies in exchange because it claims that it needs it to operate to London beyond Italy. Italy had asked Australia for a route to Wellington beyond Sydney and had been turned down. Santini felt sure that, if the United States concluded an agreement with East Africa, it would be a Bermuda agreement, and he realized that the United States would insist on a Bermuda agreement with Italy. Therefore, US carriers would be able to mount very strong competition against Alitalia.

General Santini went on to say that there was another problem that gave them a great deal of concern. Alitalia had ordered four 747's at a great sacrifice and this had caused a lot of problems especially with regard to financing. Alitalia would be receiving its first two 747's in 1970 and two in 1971. They were aware that Pan American and TWA would each have 25 747's. Even looking further ahead into the future the most that Alitalia could have would be a maximum of six 747's. This imbalance in competitive strength was very frightening for them.

Ortona interrupted to say that this whole problem of the purchase of US aircraft by Italy was a source of irritation in Europe. Alitalia was being pressured by local and other European interests to buy European aircraft and there has been a lot of discussion in the press about this problem.

Mr. Solomon pointed out that other European countries are buying US aircraft also and, of course, the reason that they buy US aircraft is that they find them preferable on the basis of commerical and operational considerations. Mr. Solomon said that the fact that a foreign country buys US equipment is not one that can

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be taken into account in bilateral negotiations. Countries all over the world use US equipment, and it would be very difficult and very hard to put a value on the fact that US equipment is used.

Ortona recognized this, but said that we should be aware that there is tremendous opposition in Europe to the purchasing of US equipment. A great effort is being made to see if there could be European production of aircraft for European airlines.

Mr. Rodriguez suggested that perhaps this problem could be reduced to a considerable extent by co-production arrangements between US and European manufacturers. He noted that there was a co-production agreement between Douglas Aircraft and Aerfer for the assembly of some DC-9's in Italy and some component parts were produced in Italy. In addition, there were some other surveys being made by American aircraft manufacturers to see what further co-production arrangements would be desirable and feasible.

Venturini, returning to the problem of the differences in the estimates, said that it was very likely that Alitalia would not be able to operate a route to Tokyo until 1974. This should be taken into account in estimating the value of that route. In any case, he felt that the calculations for that route were absurd. The US estimates called for Alitalia capturing 5 percent of the transpacific market, and he felt that Alitalia could never get 5 percent. He said that in fact they felt sure that Alitalia would lose money on that market, but they still wanted it. The most they hoped to get is 1½ or 2 percent of that market. He stated that Italy at the present time has no agreement from Japan that Alitalia would be permitted on that market, and he felt that at most Japan would let Alitalia operate three weekly frequencies. He asserted that despite all of these problems, Italy must have a route beyond the United States across the Pacific. He said that the Italian interest was not one of priority or the number of frequencies that they would operate, but was just a matter of principle of having routes beyond the United States across the Pacific.

General Santini said that the United States had suggested that perhaps Italy could withdraw the request for a route to Tokyo and leave that to a later time in the future. He wanted to explain that this was not merely a matter of stubbornness on the Italians' part, but an historical necessity. He recalled that under the old agreement Italy had had a right to "New York and beyond" and Italy wanted a route to Mexico. They were never able to get the right to operate to Mexico. Now they have to continue

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with the problem of what to do about new routes beyond the United States. In 1962, Italy had obtained traffic rights from Japan but these excluded rights to the United States and to Vancouver, because at that time Italy thought that Alitalia might be able to operate to Mexico from Japan. It was for that reason that Italy was looking for rights from the United States to Mexico. Those plans did not work. Because of this history and this experience, Italy realizes that it needs to be able to plan its negotiations ahead so that it can develop a program for the future. If Italy agrees to defer the RTW route then it would not be able to undertake negotiations with Japan or other countries to try to have the necessary rights that would be needed.

Venturini asked Mr. Landry how many frequencies were presently being operated across the Pacific. Mr. Landry said that he was not quite sure but he thought that there were around 28. Mr. Venturini said that certainly after the Transpacific Case that number would be greatly increased and that by 1974 the three weekly frequencies that Alitalia would operate would be insignificant.

Mr. Solomon said that he recognized that it was necessary for Alitalia to get rights from other countries, but that he felt that Italy probably would be able to get better rights and more than three frequencies from Japan. General Santini replied that there was an Italian saying that "Everybody knows his own troubles."

Mr. Solomon said that Italy should realize that the United States also had some very serious domestic and political problems, in particular because there were many airlines in the United States. If the United States gave Italy a route to Atlanta and Dallas, there were four US carriers that would be affected and which would certainly strongly oppose that concession. In addition, that would be the first time that the United States would have permitted direct services to interior US points in that area by a foreign carrier, and that would be giving a kind of monopoly operation on direct service on those routes to a foreign carrier. Moreover, this would not have been as a result of a CAB proceeding, which would have given carriers a chance to present their positions, but would have been as a result of an intergovernmental agreement. This is a problem that involves policy and is of great concern to the US Government. It is for this reason that it is important that the estimates be in balance.

We have not only the interest of domestic US airlines to

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consider but also the international US airlines. If an agreement were imbalanced, even the international airlines would be in opposition. As a minimum, we need to have the support at least of the international US airlines. That requires an economic balance in the agreement, and it appears quite clearly that the only way to reach a balanced agreement is to include routes to Africa and Australia for the United States.

Mr. Solomon went on to say that perhaps one possibility was to grant Italy a route to Japan that would not be effective until 1973 or 1974, and that, at the same time, the United States would get routes to Africa and Australia. This would be a way of giving Italy several years to establish itself on the routes to Africa and Australia. An alternative possibility would be not to include the routes to Japan for Italy and to Africa and Australia for the United States at all. This would not preclude Italy from still negotiating for rights with Japan or other countries. Perhaps Italy would even have to pay less to Japan for such concession if it did not already have from the United States a route to Japan. In any case, Mr. Solomon suggested that either one of these two alternative solutions should meet the priority needs of Italy.

Mr. Solomon went on to say that these alternatives could only be considered in light of what the estimates would show, and he was not at all sure that the overall balance as presented by the estimates would permit these suggestions to be considered. If these solutions could be justified on the basis of the estimates, as representing a balanced agreement, the United States would be willing to consider them.

Mr. Venturini said that these represented a problem for Italy because the United States appeared to be establishing a condition that there must be an economic or statistical balance. Mr. Solomon said that he certainly hoped that the estimates would show that there was some balance but that in any case it was indeed necessary for the United States to have such a balance in order to justify agreement on a particular package.

Mr. Venturini then asked whether Mr. Solomon, as he saw the future, thought that a package could possibly include a route from Chicago to the Orient. Mr. Solomon replied that he doubted it. In the first place, he believed that the international US airlines would be too strongly opposed if Chicago/Orient were included. There was already a strong possibility

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that the US airlines would oppose even a smaller route package that would include a round-the-world route, and now the Italian request for adding Chicago on the route to the Orient would in effect make the US Government have to take on the opposition of an additional number of carriers that have rights in Chicago. This was too much opposition and would probably make any such agreement impossible. In addition, Mr. Solomon said he doubted that an economic balance would permit the inclusion of a Chicago/Orient route or would permit Paris to be included as intermediate on the routes to the United States. Mr. Solomon felt that the pressure against granting Chicago would be so great that, even if he were in a position to initial an ad referendum agreement including Chicago, it would probably not be approved by Washington.

Mr. Solomon went on to say that he realized that Chicago would be a very desirable traffic point for Alitalia to have. But it was not essential for Italy. The route to Tokyo was a very valuable route even without Chicago. In addition, he wanted to point out that if Italy were to find either one of his two suggestions acceptable, the United States would be criticized that it had linked deferral of its rights to certain routes from Italy to Alitalia's problems on equipment. This in itself would be a source of criticism from US airlines. It might be possible that a deferment of some of these routes might help to abate Congressional opposition, but not with the private airlines.

Mr. Solomon said that he felt these meetings had advanced the discussions between the two countries. We had gotten a better understanding of Italy's needs, and we felt that we were prepared to meet the real priorities of Alitalia. But Italy should understand that the United States must also keep in mind the precedent that this agreement would establish. Italy had denounced the Agreement, and if it obtained a significantly imbalance in its favor on a new agreement, other countries would want to denounce also. The United States realizes that it is necessary to look at the balance between the two new route packages, but US interests would be comparing the new routes that Italy had obtained as against the new routes that the United States had obtained. For this reason the US Government is in a very difficult position, and Italy must make a decision on what it wants, taking this into account.

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Mr. Venturini said that it looks as if the entire discussion was dependent on the results of the commercial estimates. He wondered why, if the inclusion of Chicago on the route to Los Angeles and Tokyo could be put into a balanced package, why that inclusion should be precluded. Mr. Solomon repeated that there were significant difficulties with the Chicago route. If Italy wanted very much to leave in a route from Chicago to the Orient, then perhaps what it would have to do is to give up its request for a route to Atlanta and Dallas.

Mr. Venturini stated that Italy had a domestic problem with accepting the Bermuda principles, in part because the United States had so many airlines. He understood the policy problems that the US Government must confront but he wondered if the United States is taking adequately into consideration Italy's willingness to accepting a Bermuda agreement. Mr. Solomon replied that we are taking that into consideration; and we feel that routes to Tokyo or to Atlanta and Dallas are so valuable that they would make up for that. Venturini asked whether this meant that at any price the route from Chicago to the Orient was out of the question. Mr. Solomon reiterated that we could not take on the opposition of additional carriers except by reducing the opposition of other carriers; that this could be done only by a decision by Italy regarding its priorities. In any case, the United States has already made great concessions in an effort to come a major part of the way toward Italy. He noted that the Italian request for Chicago was one that had just been made for the first time at the last meeting in Washington.

Mr. Venturini said that the point Mr. Solomon had made with respect to letting foreign carriers come into the southern part of the United States should be considered in light of the fact that KLM and Lufthansa already operate to Houston. Mr. Solomon asked whether Italy would prefer to operate to Houston. General Santini and Mr. Venturini did not appear to be interested in this.

Ambassador Ortona noted that the meeting would have to be concluded in order to permit the participants to go to the luncheon that was being offered by Ambassador Ackley. He stated that he felt the meeting had perhaps cast some new light on the subject, and that we would wait to see what more could be done on the basis of the new estimates that would be prepared.

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Joint US-Italian Document
July 3, 1968

A COMPARISON OF U.S. AND ITALIAN ESTIMATES OF PASSENGER REVENUES DERIVED BY U.S. AND ITALIAN CARRIERS

CALENDAR 1967

	According to Italian Estimates 1/		According to U.S. Estimates 1/	
	Psgrs.	Rev. ($000)	Psgrs.	Rev.($000)
I. US-ITALY Market 2/				
A. US Carrier Operations				
US-Rome	143,368	32,566	139,477	32,246
-Milan	41,466	8,900	43,414	9,762
Sub-Total	184,834	41,466	182,891	42,008
B. Alitalia Operations				
Italy-New York	139,032	30,193	139,599	30,488
-Boston	13,825	2,868	9,800	2,056
-Chicago	13,592	3,475	14,900	3,690
	166,449	36,536	164,299	36,234
II. Intermediates 3/				
A. U.S. Carrier				
Paris-Rome	43,095	2,112	35,211	1,696
-Milan	993	32	1,719	53
Nice-Rome	16,262	455	16,846	437
Madrid-Rome	16,809	840	20,544	1,008
Barcelona-Rome	8,321	308	9,339	347
Lisbon-Rome	11,730	833	8,539	625
Zurich-Rome	1,319	47	1,083	40
-Milan	1,624	34	257	5
Geneva-Rome	2,383	86	2,587	93
Frankfurt-Rome	-	-	138	5
Sub-Total	102,536	4,747	96,263	4,309
B. Alitalia				
London-New York	18,659	3,265	20,000	3,584
Lisbon-New York 4/	12,263	2,146	25,000	4,480
Montreal-Chicago	15,116	635	15,000	706
	46,038	6,046	60,000	8,770
III. Beyonds				
A. U.S. Carrier 5/				
Rome-Beirut	8,764	1,034	8,941	1,009
-Ankara	5,940	558	4,187	386
-Istanbul	7,395	651	7,735	669
-Athens 6/	35,533	2,345	35,230	1,937
-Tel Aviv	15,599	1,841	15,151	1,701
-Dhahran	816	146	599	86
-Cairo	5,058	597	3,411	383
-Teheran	9,656	1,661	8,803	1,474
-Bombay	1,126	283	938	234
Sub-Total	89,887	9,116	84,995	7,879
B. Alitalia (None)				

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A COMPARISON OF U.S. AND ITALIAN ESTIMATES OF PASSENGER REVENUES TO BE DERIVED BY U.S. AND ITALIAN CARRIERS FROM ROUTES NOT CURRENTLY OPERATED

1967

	According to Italian Estimates		According to U. S. Estimates	
	Psgrs.	Rev. ($000)	Psgrs.	Rev. ($000)
I. U.S.-Italy Market [7]				
A. Alitalia				
Italy-Los Angeles	8,736	2,839	7,328	2,363
-Atlanta/Dallas	9,090	2,487	13,207	3,956
Sub-Total	17,826	5,326	20,535	6,319
II. Intermediate Markets [8]				
A. U. S. Carriers				
U.K.-Rome/Milan	25,800	1,673	-	-
Germany-Rome/Milan	16,300	622	-	-
Ireland-Rome/Milan	1,800	127	-	-
Sub-Total	43,900	2,422	-	-
B. Alitalia				
Paris-New York	19,000	3,591	20,384	3,846
-Atlanta/Dallas	4,800 [9]	1,182	11,555 [10]	2,878
Montreal-Los Angeles	4,100	561	6,778	935
Sub-Total	27,900	5,334	38,717	7,659
III. Beyond Markets [11] [12]				
A. U. S. Carriers				
Rome-New Delhi	2,500	628	1,338	351
-Calcutta	990	287	112	34
-Karachi	1,400	343	958	238
-Rangoon	610	214	162	59
-Bangkok	1,750	614	1,862	685
-Saigon	910	323	126	48
-Hong Kong	2,240	912	998	420
-Tokyo	2,320	1,130	556	285
-Abadan	875	151	-	-
-Colombo	660	191	-	-
-Pnon Penh	360	127	-	-
-Peking	625	256	-	-
-Shanghai	800	327	-	-
-Taipei	900	414	-	-
-Manila	1,400	623	-	-
-Osaka	1,680	818	-	-
-Entebbe	-	-	866	200
-Nairobi	-	-	5,060	1,246
-Dar Es Salaam	-	-	1,354	362
-Sydney	-	-	1,721	968

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	According to Italian Estimates		According to U. S. Estimates	
	Psgrs.	Rev.($000)	Psgrs.	Rev.($000)
-Singapore	-	-	479	193
-Djakarta	-	-	90	41
-Beyond Sydney	-	-	-	120
B. Alitalia 13/ 14/ 15/				
Chicago-Orient	8,265	3,061	7,608	3,104
Los Angeles-Orient	17,195	5,398	22,823	7,554
Sub-Total	25,460	8,459	30,431	10,658
IV. Co-Terminal Rights				
A. Alitalia				
Boston/Chicago	-	345	-	389

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APPENDIX

1/ Italian passenger figures for U. S. carriers are based on data submitted by carriers to airport authorities and exclude charter traffic. In order to take into account non-revenue passengers in arriving at revenue figures, Italy has deducted following percentages; from U.S.-Italy market 5,8 percent; from intermediate markets, 2.6 percent; from beyond markets, 1.3 percent. U. S. passenger figures are based on carrier reports which exclude non-revenue traffic and charter traffic.

2/ Alitalia's Breakdown of U. S. carrier U.S.-Italy Traffic by Points in the United States is as follows:

City Pairs		No. of Psgrs.	Value ($000)
New York	-Rome	129,372	28,721
	-Milan	39,123	8,098
Chicago	-Rome	2,207	574
	-Milan	- (not operated)	-
Boston	-Rome	4,307	913
	-Milan	- (not operated)	-
San Francisco	-Rome	2,248	800
	-Milan	2,090	713
Los Angeles	-Rome	3,049	1,024
	-Milan	253	89
Washington	-Rome	1,033	242
St. Louis	-Rome	22	6
Detroit	-Rome	970	241
Kansas City	-Rome	160	45
Total		184,834	41,466

3/ Both delegations agreed to recheck those figures related to Paris, Madrid, Lisbon and Zurich in order to resolve, if possible, discrepancies between their respective figures.

4/ Italian figure does not include TAP traffic carried on Alitalia services under blocked-space Alitalia-TAP Agreement. TAP traffic exclusion is based on ICAO March-September Traffic Flow statistics for the year 1967. U.S. figure includes all traffic on board scheduled Alitalia services.

5/ Both delegations agreed to recheck figures related to Ankara, Cairo and Teheran in order resolve, if possible, discrepancies in passenger figures.

6/ Discrepancy between Italian and U. S. revenue figures on this sector are due to use of different average fares. Fare used by U. S. takes into account significant ratio of stopover traffic versus overall traffic on ROM/ATH sector.

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7/ Both Italian and U.S. estimates as shown here have been reduced to take into account self diversion from gateways currently operated by Alitalia.

8/ U.S. estimates were not prepared for these intermediate points because it was not intended that these intermediate points would be used for passenger services to Italy.

9/ The Italian estimate is based on 1966 actual traffic data as shown on a CAB airline traffic survey (Docket No. 17726, Exhibit No. DFW-85) which indicated a total traffic of 2,552 passengers ATL/DAL/PAR. This data was increased by 15 per cent to project it for 1967, expanded to take into account the traffic potential for the South and Southwest areas to Paris, a stimulation effect of 50 per cent was added, and a market share of 49 per cent was attributed for Alitalia. It should be noted that the Italian estimate for PAR/ATL/DAL is approximately 35 per cent of the Italian estimate for the total route ITALY/PAR/ATL/DAL.

10/ The U.S. estimate was based on an assumption that Alitalia's traffic on the PAR/ATL/DAL segment would be 40 per cent of the estimated total traffic on the Italy/PAR/ATL/DAL route, in light of the fact that the secondary market is substantially larger than the primary market.

11/ The Italian evaluation of U.S. carrier traffic to points beyond Rome on the route to Japan involved an estimate of market access possibilities for U.S. carriers for each point concerned based on assumptions as to the number of frequencies which might be operated to/from each of the points under examination up to a maximum of 7 for terminal points on the aforesaid route. Under this basic assumption the percentage of the total market to which the U.S. carriers would have access was then estimated to arrive at the estimated number of passengers for U.S. carriers at each point beyond Rome, bearing in mind other services on the route.

12/ U.S. estimate on points beyond Rome to which U.S. carriers had connecting services (NDH, CCU, KHI, RGN, BKK, SGN, HKG, TYO) were based on U.S. carrier reports on traffic carried to these points via the connection points of BEY and THR. These figures were stimulated by 100% to reflect the impact of through-plane service. The U.S. had no real basic data on which to base its estimates on the value to the U.S. of those points beyond Rome which are not now served by U.S. carriers (ABD, CMB, PNH, PEK, SHA, TPE, MNL, OSA). Accordingly, a token value of 10% of the

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aggregate value of the points now served via connecting services was used.

The Italian delegation gave the U.S. delegation data regarding the size of the total market between Rome and the various beyond points not now served by U.S. carriers and the percentage of such markets which could be attributed to U.S. carriers. The U.S. agreed to examine this data for the purpose of reassessing the values estimated for these route segments.

13/ These estimates are based on a route Italy/YUL/CHI/LAX/Orient.

14/ The Italian delegation objects that the estimated values for the CHI/LAX/Orient route prepared by both parties are not comparable since the Italian values are based on three weekly frequencies and the United States ones on four weekly frequencies.

15/ The U.S. first estimated the LAX/Orient route on the consideration that the LAX/Orient market possibilities for the Italian flag carrier would permit it to mount 3 weekly frequencies at a load factor of 55%. Then, in order to assign a value to the addition of Chicago on that route, the U.S. felt it necessary to base the estimate for the CHI/LAX/ORIENT route on 4 weekly frequencies at a 55 percent load factor.

NOTE:

ITALY

Alitalia's actual 1967 results have to be reduced by the following values, i.e. the differences between actual off-line performances through the NYC gateway from ATL, DAL, LAX and from YUL-CHI segment:

	No. Psgrs.	Rev. ($000)
ALT-LAX	924	429
-ATL	198	43
-DAL	1,500	326
YUL-CHI	1,000	47
TTL		845

UNITED STATES

The United States notes that if Italy had operated new routes

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to LAX and to ATL/DAL in 1967 it would have carried a certain number of passengers that the U. S. carriers actually transported. This diversion would have resulted in a revenue loss to U. S. carriers estimated by the U. S. as follows:

ATL	$ 461,000
DAL	530,000
LAX	372,000
	$1,363,000